



House of Representatives

General Assembly

File No. 450

February Session, 2014

Substitute House Bill No. 5545

House of Representatives, April 8, 2014

The Committee on Finance, Revenue and Bonding reported through REP. WIDLITZ of the 98th Dist., Chairperson of the Committee on the part of the House, that the substitute bill ought to pass.

AN ACT CONCERNING A COMPREHENSIVE STUDY OF THE STATE'S TAX STRUCTURE.

Be it enacted by the Senate and House of Representatives in General Assembly convened:

1 Section 1. (NEW) (*Effective July 1, 2014*) (a) The chairs and ranking
2 members of the joint standing committee of the General Assembly
3 having cognizance of matters relating to finance, revenue and bonding
4 shall convene a panel of experts to conduct a thorough study of the
5 state's tax structure. Such study shall endeavor to develop revenue-
6 neutral policy options to modernize the current tax system, with the
7 goals of increasing the system's simplicity, fairness, economic
8 competitiveness and affordability.

9 (b) Members of the panel shall be appointed by the chairs and
10 ranking members of the joint standing committee of the General
11 Assembly having cognizance of matters relating to finance, revenue
12 and bonding. All appointments to the panel shall be made not later
13 than thirty days after the effective date of this section. The chairs of the

14 joint standing committee of the General Assembly having cognizance
15 of matters relating to finance, revenue and bonding shall serve as
16 chairs of the panel and shall convene its first meeting.

17 (c) The panel shall consult with the Office of Policy and
18 Management and the Department of Revenue Services and such other
19 financial experts as members of the panel deem necessary. The panel
20 shall organize itself into subcommittees for the purpose of focusing on
21 each tax to be studied.

22 (d) The panel shall examine the taxes listed in this subsection. Such
23 examination shall include, but not be limited to, consideration of the
24 following:

25 (1) For each of the listed taxes: Whether it encourages economic
26 growth, is efficient, stable, simple and predictable, and fair and
27 equitable;

28 (2) For the corporation business tax: (A) The effect of the tax on
29 operations of corporations; (B) the impact of the tax on the
30 competitiveness of state businesses and on prices paid for their goods
31 and services; (C) the applicability of a corporate-based business tax
32 structure, when alternative forms of business organizations are
33 increasingly being used; (D) the use of tax credits, including
34 consideration of (i) their efficacy in achieving policy goals, (ii) their
35 application to business entities other than corporations, (iii) the
36 expansion of existing tax credits, such as the apprenticeship tax credit,
37 or adding new tax credits, and (iv) whether any benefit would be
38 achieved by use of results-based analysis of tax credits; and (E) the
39 advantages and disadvantages of alternative forms of corporate
40 taxation, including combined reporting;

41 (3) For sales and use taxes: (A) The impact on the state's revenues
42 and economy of the existing rate and exemptions, as compared to a
43 lower rate and a broader base; (B) the treatment of sales tax on
44 business-to-business sales; (C) whether luxury taxes raise sufficient
45 revenue to offset retail business lost; and (D) whether there is equity

46 within the existing tax structure, including whether bed and breakfast
47 inns should be taxed at the same rate as hotels;

48 (4) For the personal income tax: (A) The rate structure as related to
49 the tax's progressivity and equity between single and joint filers; (B)
50 the purposes and efficacy of existing deductions and exemptions; (C)
51 whether existing tax credits are meeting public policy goals, and
52 whether other credits should be allowed; (D) whether adjustments are
53 needed to the Connecticut minimum tax; and (E) the administration of
54 the tax, and whether it is fair and efficient, including the manner in
55 which tax refunds are made;

56 (5) For the local property tax: (A) The impact of the tax on
57 businesses; (B) the impact of the tax on residents; (C) the real or
58 perceived inequities in the varying levels of property tax throughout
59 the state; and (D) alternative sources of revenue for municipalities;

60 (6) For the estate and gift tax: (A) The extent to which state residents
61 move out of the state, based on this tax; (B) the effect on the state from
62 losing the high-income residents affected by this tax; and (C) whether
63 adjusting the rates is advisable; and

64 (7) For the excise taxes: (A) The effect of taxes on price elasticity; (B)
65 the effect of taxes on consumers; and (C) whether these taxes fulfill a
66 particular public policy purpose.

67 (e) For the calendar year ending December 31, 2014, the panel shall
68 develop an outline of items to be considered, a list of goals and a
69 tentative schedule. They shall meet with a broad cross-section of
70 interest groups, including business associations, labor, regional
71 organizations, public interest groups, accountants and attorneys. For
72 the calendar year ending December 31, 2015, the panel shall proceed,
73 through subcommittees, with its analyses of the state's taxes, as
74 provided in subsection (d) of this section. Not later than February 1,
75 2016, the panel shall report, in accordance with the provisions of
76 section 11-4a of the general statutes, to the joint standing committee of
77 the General Assembly having cognizance of matters relating to finance,

78 revenue and bonding, on the results of its study, including any
79 recommendations for further action.

This act shall take effect as follows and shall amend the following sections:

Section 1	<i>July 1, 2014</i>	New section
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FIN *Joint Favorable Subst.*

The following Fiscal Impact Statement and Bill Analysis are prepared for the benefit of the members of the General Assembly, solely for purposes of information, summarization and explanation and do not represent the intent of the General Assembly or either chamber thereof for any purpose. In general, fiscal impacts are based upon a variety of informational sources, including the analyst's professional knowledge. Whenever applicable, agency data is consulted as part of the analysis, however final products do not necessarily reflect an assessment from any specific department.

OFA Fiscal Note

State Impact:

Agency Affected	Fund-Effect	FY 15 \$	FY 16 \$
Legislative Mgmt.	GF - Cost	50,000 - 250,000	50,000 - 250,000

Municipal Impact: None

Explanation

The bill authorizes the chairs and ranking members of the Finance, Revenue and Bonding Committee to convene a panel of experts to conduct a thorough review of the state's tax structure. Given the scope and probable complexity of the study, it is anticipated that outside or contracted expertise would be required at a total cost ranging from \$90,000 to \$490,000 over the two fiscal years of the study. In addition, the Office of Legislative Management would incur costs of up to \$10,000 to cover mileage reimbursements and publication costs.

sSB 28, An Act Concerning Revenue Items to Implement the Governor's Budget, as favorably reported by the Finance, Revenue and Bonding Committee, provides \$500,000 to fund the comprehensive study of the state's tax structure from the projected FY 14 General Fund surplus of approximately \$500 million. The funds shall be available in FY 15 and FY 16.

The Out Years

There are no out year costs because the study terminates in FY 16.

OLR Bill Analysis**sHB 5545*****AN ACT CONCERNING A COMPREHENSIVE STUDY OF THE STATE'S TAX STRUCTURE.*****SUMMARY:**

This bill (1) requires the Finance, Revenue and Bonding (FRB) Committee's chairpersons and ranking members (leaders) to oversee a study of the state's tax structure, including local property taxes and (2) specifies how and when they must do so. The leaders must appoint, by July 31, 2014, a panel of experts to help them undertake the study. The bill neither limits the panel's size nor specifies the members' qualifications. The committee's chairpersons must convene the panel's first meeting, but the bill sets no deadline by which they must do so.

In conducting the study, the panel must attempt to develop revenue-neutral options for modernizing the tax system and making it simpler, fairer, more affordable, and economically more competitive. The panel must consult with the Office of Policy and Management secretary, the revenue services commissioner, and other financial experts it deems necessary.

The panel must organize itself into subcommittees, each focusing on a different tax and addressing the issues the bill frames for that tax. By December 31, 2014, it must develop a work plan for 2015, listing its goals and tentative work schedule. The panel must meet with many different interest groups, including accountants, attorneys, business associations, labor unions, and public interest groups. It must implement the plan during 2015 and report its findings and recommendations to FRB by February 1, 2016.

EFFECTIVE DATE: July 1, 2014

STUDY'S OUTLINE

The bill requires the panel to study each state tax and the local property tax, specifying general and specific issues the panel must consider.

General Considerations

For each tax, the panel must determine if it:

1. encourages economic growth;
2. is efficient, stable, simple, and predictable; and
3. is fair and equitable.

Corporation Business Tax

With respect to this tax, the panel must consider:

1. how the tax affects corporate operations;
2. how it affects the state's business competitiveness and the cost of goods and services;
3. the extent to which the corporation business tax structure applies to existing business entities, especially when more are organizing themselves as entities other than corporations;
4. how businesses are using tax credits, including the extent to which they (a) achieve policy goals, (b) apply to entities other than corporations, (c) should be expanded or increased, and (d) should be evaluated using results-based accountability methods; and
5. the advantages and disadvantages of using combined reporting and other forms of corporate taxation.

Sales and Use Taxes

The panel must consider the following issues when examining the sales and use taxes:

1. how the existing rate and exemptions affect the state's revenue and economy compared to a lower rate and fewer exemptions;
2. how the sales tax affects business-to-business sales;
3. whether the luxury tax raises enough revenue to offset the lost retail business from the tax; and
4. whether there is equity within the current structure, including whether bed and breakfast inns should be taxed at the same rate as hotels.

Personal Income Tax

With respect to this tax, the panel must consider:

1. the rate structure's progressivity and equity between single and joint filers;
2. the purposes and effectiveness of the existing deductions and exemptions;
3. whether (a) the existing tax credits fulfill public policy goals and (b) other credits should be allowed;
4. whether the Connecticut minimum tax rate needs to be adjusted; and
5. how the tax is administered and whether it is fair and efficient, including its tax refund methods.

Local Property Tax

The panel must consider the following issues when examining the local property tax:

1. how the tax affects businesses and residents,
2. the real and perceived inequities resulting from different municipal property tax rates, and

3. other sources of municipal revenue.

Estate and Gift Tax

With respect to this tax, the panel must consider:

1. the extent to which it causes state residents to leave the state,
2. how the state is affected by the loss of high-income residents due to the tax, and
3. whether rate adjustments are advisable.

Excise Taxes

The panel must consider how these taxes (1) affect consumers and price elasticity and (2) whether they serve a specific public policy.

COMMITTEE ACTION

Finance, Revenue and Bonding Committee

Joint Favorable Substitute

Yea 50 Nay 0 (03/25/2014)